



Work Project

How to Improve the Impulse Business Model of Olá

An Approach on Visibility and Assortment within the Portuguese Market

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1. BRIEF CONTEXT OF THE BUSINESS PROJECT

1.1 *Company and brand introduction*

Unilever Portugal is part of Jerónimo Martins Group and it successfully manages very popular brands, enjoying very high performance in the fast moving consumer goods industry. Olá is an example of such brands, attaining 91% market share of the impulse singles ice cream business. Having one point-of-sale per 150 inhabitants in Portugal, Olá is the clear market leader with very wide distribution coverage. As a consequence, it is one of the top-of-mind brands for ice cream Portuguese consumers.

1.2 *Market overview*

Despite Olá's incredible performance, it is definitely a challenge to keep up with the consumer trends and at the same time, to deal with competition. In fact, one of the most relevant trends in the out-of-home ice cream industry is the consumer demand for premium ice creams (e.g. scooping from Santini), which has been rapidly growing in spite of the current economic situation in Portugal. Non-packaged ice creams such as scooping or sorbet are consequently very relevant direct competitors for Olá. Nevertheless, the stick format still accounts for 55% of the total value ice cream sales in Portuguese market. (Euromonitor International, 2013)

Additionally, other packaged impulse ice cream brands such as Nestlé and Menorquina are very important players in the market, even if only representing 9% of the impulse ice cream singles business. These brands tend to be market followers and therefore are constantly imitating Olá, the market leader, in order to steal its consumers. Therefore, these are also important direct competitors that Olá needs to take into account.

Finally, impulse products such as chocolates, biscuits and soft drinks are also representative competitors for Olá. In fact, most of the times consumers do not plan to buy an ice cream out-of-home, and the same happens for chocolate for example. Hence, consumers may decide upon any of these products when craving for a sweet for example, meaning that all impulse products besides ice cream should be considered as indirect competition.

The key success factors for any ice cream brand in Portugal are definitely innovation (e.g. new flavours) and advertisement, generating a lot of dynamism and high competition in the industry.

1.3 *Current client situation*

Olá is composed by two main lines of business: in-home and out-of-home/impulse. For the out-of-home business, Olá is currently segmenting its customers according to their sales

figures, creating three different customer types. Based on this segmentation, Olá further adapts its ice cream portfolio (assortment) and Olá merchandising materials (visibility) to each of the three customer segments. However, considering that Olá is sold in more than 50.000 POS in Portugal, it is very challenging to define an effective customer segmentation in order to better reach the final consumers.

In what concerns to visibility, competition for having branded merchandising materials at the POS is very fierce and therefore it is very difficult to induce customers to have Olá materials exclusively.

As for the current assortment strategy, Olá is a very innovation-driven brand, which is definitely a key driver for the brand's success. Nonetheless, finding the perfect balance between the innovations and the core products is certainly not simple. Furthermore, Olá aims at having at least 50% of the products priced at 1€ or less, making the process on defining the best assortment even harder.

Finally, another key challenge that Olá is currently facing is the seasonality impact on ice cream consumption. Hence, it is crucial to understand how to increase Olá penetration in the winter season.

1.4 The Business Project challenge

The aim is to improve the out-of-home/impulse business model of Olá, based on two main pillars: assortment and visibility. Therefore, the main goal of the Business Project is to find new growth opportunities for the out-of-home business, based on the following:

1. The perfect assortment: defining the right assortment per customer type;
2. The role of visibility: how to measure its impact and optimize the ROI.

In order to reach such objectives, it was necessary to fully understand the current business model and analyse Olá's competition, continuously focusing on the main challenges that the brand is currently facing.

1.5 Summary of conclusions

As a conclusion of the Business Project, two main recommendations were made:

- Implement a new customer segmentation model, creating narrower customer segments. Hence, it will be possible to have a more accurate proxy for the final consumer and better adapt Olá's assortment to each customer type.
- Assess each POS through the "visibility diamond", an Excel tool that was created with the purposed of providing explicit plans of action that redefine the current visibility and assortment strategies according to each POS' characteristics.

2. FURTHER DEVELOPMENT OF A SPECIFIC TOPIC

2.1 Topic introduction: Seasonality

As previously mentioned, one of the major challenges for any ice cream business is to deal with seasonality. In fact, ice cream consumption is definitely much higher in the summer and it represents 2/3 of the total Portuguese yearly consumption. (Continua combate a sazonalidade, 2014) The main reason for such high demand fluctuations is the fact that consumers associate this product to warm weather and high temperatures, especially if consuming out-of-home. Therefore, it is crucial for Olá to deal with the seasonality issue and strategically adapt to the winter season in order to avoid high sales volume fluctuations throughout the year.

Seasonality is surely a very serious issue for many different types of products and, *“for a country like the United States or Canada, seasonal purchases will often amount to one-fifth to one-third of all consumer purchases.”* (Diewert, Balk, Fixler, Fox, & Nakamura, 1999, p. 5) Furthermore, it has implications for everyday pricing, assortment, space and inventory management. For these reasons, this threatening factor should never be disregarded when managing seasonal products, such as the case of Olá ice creams.

2.2 Original approach

As a way to effectively target the final consumer needs and strategically adapt the ice cream portfolio to each season, Olá implemented three different price boards for the out-of-home business, in 2013 (*figure 1* in the Appendix): the “open” price board in February, the “excite” price board in May and the “extend” one in September. The new ice cream launches for that year were distributed throughout the season, keeping the consumer excited about every new price board.

As it can be noticed in *figure 1*, the core part of the “excite” price board is exclusively promoting Magnum brand. It includes not only the traditional stick Magnum ice creams, but also the Magnum cup and the Magnum chocolates, which are usually sold in super- and hypermarkets for in-home consumption. In addition, this particular price board includes an extra annex that contains almost all the other Olá ice creams from the out-of-home portfolio. From this analysis, it is possible to conclude that Olá adapts its portfolio to the winter season, starting in September. The main strategy is to focus on Magnum brand by having an exclusive core price board for these products.

One of the main reasons for such decision is the consumers’ preference for chocolate in the winter season, while fruit flavours are more associated to the summer season. Magnum brand

targets “spontaneous pleasure seekers” and it is a premium adult ice cream that offers chocolate indulgent pleasure. (Unilever, 2013) Hence, Olá is considering the different consumer preferences and needs for each season: while in summer consumers usually have the need for refreshment, in the winter they are most commonly craving for a treat and therefore want to fulfil an indulgence need.

Furthermore, Magnum is a top premium brand from Olá and thus more expensive. Therefore, in order to compensate the lower sales volume in winter, Olá tries to decrease its impact in the sales value by focusing on high margin products. Nevertheless, Olá also wants to make sure that other successful ice cream brands such as Calippo or Cornetto are not excluded from the winter price board, and this is the reason why an extra annex was implemented.

2.3 Main limitations

There are three identified main limitations on Olá’s strategy to fight against seasonality, which will be now introduced.

Considering that Olá adapts its portfolio according to the season (e.g. Magnum price board), one could conclude that it is actually taking the right route. However, the number of ice creams in the winter portfolio does not change that much when compared to the summer price boards (the “open” and “excite” ones), which is not in line with the decrease in consumer demand for such products. Additionally, even though Olá included some new and relevant Magnum SKUs for winter (e.g. Magnum chocolates), it still kept the fruity and refreshment ice creams in the extra annex of the “extend” price board. As mentioned before, consumer needs change throughout the year and during winter consumers do not look for refreshing and fruity ice creams as much as chocolate flavoured SKUs for example.

Hence, the first limitation is that Olá should be **more realistic** when adapting its winter portfolio and it should question not only the number of available SKUs for the winter price board but also the change in the consumer needs from one season to another.

On the other hand, customers do not have incentives to buy a complete ice cream portfolio composed by a high number of SKUs in winter, as opposed to the summer. Considering the Alternate Category Role Matrix from Professor Robert Blattberg (Wiley & Hoboken, 2006), ice cream should be considered as a low margin category with high sales volume during the summer – it is a core traffic category (*figure 2* in the Appendix). In contrast, ice cream sales in winter are low meaning that it is probably a rehab category for customers during this season (*figure 2* in the Appendix). From this analysis, one may conclude that despite its low margin, ice cream has a traffic generator role at the point-of-sale during the high season. In

consequence, customers have high incentives to purchase Olá during summer as opposed to winter, in which other product categories such as hot drinks are the ones generating traffic. Hence, it is much more profitable for the customer to invest in other categories during the cold season such as chocolates, cakes or biscuits because these products do not have such seasonal demand fluctuations. This means that Olá stock-outs are much higher in the low season because customers do not have incentives to buy ice creams in winter. If the final consumer intends to buy an Olá during this season, it is highly probable that the point-of-sale does not have his first choice. Furthermore, when that choice is available, sometimes it does not even have the same quality as in summer because it has been preserved in the freezer since then (e.g. cone part of Cornetto is sometimes not crunchy because it was not properly preserved). In consequence, the main limitation is that Olá ends up getting highly affected because very often **consumers feel disappointed** in these situations, which may damage the brand image and decrease consumer loyalty.

The final limitation to the current approach is the fact that the majority of the **indirect competitors** for ice cream are not seasonal products when compared to ice creams, meaning that these represent a very relevant threat in winter (e.g. chocolate and biscuits). The fact that Olá launched the Magnum chocolates is definitely an advantage, however it is probably not enough to compete with all the existing impulse product categories (*figure 3* in the Appendix). Moreover, considering other indirect competitors such as candies or biscuits, Olá ice creams do not have any chance to succeed over these products during winter. This is mainly due to the fact that consumers are most commonly craving for these types of products during the cold season and they associate ice cream to the summer season. Furthermore, customers have lack of incentives to sell ice cream in winter, being even tougher for Olá to fight against the other categories. According to Euromonitor, *“while other impulse and indulgence products suitable as snacks are generally available throughout the year, sales of ice cream peak strongly during summer. This high level of seasonality makes it difficult for ice cream to compete on an even foot with other impulse and indulgence snacks.”* (Euromonitor International, 2013, p. 2)

2.4 *Recommended approach*

According to the online survey findings from the research that was conducted during Business Project, almost 30% of the respondents do not choose the same Olá ice creams during summer and winter. This is actually in line with the different needs that consumers want to fulfil when eating an ice cream: in summer they are usually craving for refreshment and in winter for indulgence. Therefore, it is definitely relevant for Olá to adapt its assortment to the different seasons, translated into different price boards throughout the year. From Blattberg's model, it is possible to understand the main strategic tactics for each category role in the Alternative Category Role Matrix, which will now be described. (Wiley & Hoboken, 2006)

In the summer, ice creams are considered a core traffic category. As Olá is already the market leader for impulse singles, one may conclude that its current main goal is to keep the high sales and profits, preferably reducing the current investment level. In order to do so and according to Blattberg's guidelines, Olá should keep a broad assortment and aggressively promote the ice creams during the high season. It is also suggested to place the most profitable SKUs in the price board's leading positions (e.g. Magnum on the top part).

On the other hand, ice creams have a rehab category role during the winter season. In this situation, Olá's main goal should be to increase profits while decreasing sales. Hence, Blattberg's suggestion is to raise the SKUs' prices in order to increase margins, incentivizing customers to buy. Also, it is recommended to have a limited assortment by pruning the less profitable items and avoid adding new SKUs unless these increase volume or profits.

From Olá's current approach to deal with seasonality, which was described before, it is possible to conclude that Olá is following the right route when defining its assortment strategy for the summer season. Taking Blattberg's guidelines into account, Olá already presents a broad and varied assortment in the summer and at the same time, it is promoting the most profitable SKUs (e.g. Magnum 5 Kisses promotion in the "open" and "excite" price boards).

Nevertheless, Olá's assortment strategy for the winter season could be improved. Firstly, it should **reduce the assortment** by excluding the less profitable SKUs, probably pruning some ice creams from the "extend" price board annex (e.g. refreshing SKUs). In fact, Olá's winter price board should be more realistic and match the lower demand for ice cream. Moreover, a smaller assortment would definitely reduce the stock-outs level during the low season, translated into higher consumer satisfaction because the consumer will have higher chances to find what he is looking for.

On the other hand, Blattberg's winter price increase suggestion may be too aggressive, especially considering that consumers are probably more price sensitive when deciding to buy an ice cream in the low season. They may get very confused about Olá if prices are not the same throughout the year, which may damage the brand image. Furthermore, other competing categories such as chocolates or biscuits are not so highly priced, which means that if Olá increases its prices in winter, it would probably lose a lot of share that would be attained by its indirect competitors. Therefore the final recommendation is to **keep the same pricing strategy** for the whole year, but Olá still needs to **focus on the high margin SKUs** during winter (e.g. Magnum). In fact, Olá is already following this route however it should exclude most of the low margin SKUs (e.g. the ice creams in the "extend" price board's annex) in order to reduce the winter assortment.

Finally, the last suggestion is for the brand to avoid adding new ice creams to the winter assortment. Nevertheless the Magnum chocolates, which were included in Olá's "extend" price board from last year, have the potential to increase Olá's total sales volume during the winter season. Moreover, this product represents an important weapon for Olá to compete against other relevant categories such as chocolates or biscuits. For these reasons, Olá should **keep Magnum chocolates** in the winter assortment and **focus on its indirect competitors'** actions as these represent a superior threat during the winter season.

As an example on how to deal with other relevant categories and fight against seasonality, Olá launched the Magnum Hot for the in-home line of business. It basically focused on the Magnum brand by creating a "winter concept" for its classic ice creams (*figure 4* in the Appendix). It consists on a different and new way of consuming Magnum ice cream in winter, by turning it into a hot chocolate. The process is very simple, composed by the following steps:

1. Take the ice cream out of the freezer and put it in a mug containing 50ml of milk;
2. Heat it in the microwave for 1 minute and 15 seconds;

This example is very interesting once for the in-home case, Olá is trying to reduce the seasonality impact in winter consumption by creating a new way of consuming Magnum ice creams. Hence, Olá found an opportunity by accepting the fact that ice cream is a seasonal product and thus creating an alternative way for the products' usage. The strategy is to take advantage of the consumers who prefer to have hot drinks in winter because they have the need to warm themselves. As it is hot chocolate, it is at the same time satisfying the need for a treat or a sweet (indulgence), which is also more associated to winter.

As a way to strengthen Olá's strategy to fight against seasonality, the last recommendation would be to **launch Magnum Hot in the out-of-home** business as well. Olá should have an additional competitor for the chocolate category at the POS because chocolate is definitely one of the most representative indirect competitors, especially in the winter season.

Hot chocolate would surely be very effective to improve Olá's sales out-of-home since it is a very popular choice at the point-of-sale, especially in the winter season. In fact, consumers are very often in the street craving for a treat and at the same time feeling the need to warm themselves. Hence, Olá could target this segment by satisfying their needs during the whole year, adapting its portfolio accordingly. Furthermore, as this recipe was already launched last year for the in-home business, Magnum Hot is surely a feasible concept that would satisfy this consumer-type.

In order to test the out-of-home possibility, Olá could probably select its top premium customers for a start. As Magnum Hot would have to be prepared at the point-of-sale, one must ensure that the product's quality would not get harmed and that the customer would be incentivized to sell Magnum Hot in the right way (it is necessary to mix the Magnum ice cream with milk and further warm it up). Since Magnum is a premium brand, selecting the top costumers would also be in line with the brand's current positioning.

To sum up, Olá ought improve its assortment strategy in order to face the seasonality issue. It is absolutely crucial to adapt its portfolio according to the different consumers needs, which very often change with the different seasons. Additionally, indirect competitors have a crucial role at the POS, especially in the low season. For this reason, Olá should also consider these players when defining its assortment strategy. As a suggestion, the brand could launch new products (e.g. Magnum Hot) that would directly compete with these competitors, especially in the winter season.

3. REFLECTION ON LEARNING

3.1 *Previous knowledge learned from the Masters program*

After analysing Olá's current business model and competition environment in the Portuguese market, it was necessary to conduct an extensive research, which would be the basis for the project's final recommendations. The research phase of the Business Project was definitely very demanding, for several reasons: firstly, it was essential to consider all the stakeholders involved in the business (e.g. Olá's sales managers, customers and final consumers); secondly, as Olá ice cream is an impulse product and therefore the consumer decides to buy it in an emotional and instantaneous way, it was quite hard to assess the consumers' purchase decision process; finally, as Olá is the clear market leader for the out-of-home business and is sold in more than 50.000 POS in the country, it was very challenging to define a representative sample of customers.

In order to plan the research methodology and its execution process, the content that was learned in the Brand Management course was definitely useful. In fact, through this course it was possible to understand the different research methods and its applicability, which is highly dependent on the kind of information that the researcher is looking for. Furthermore, one of the course's requirements is to conduct a real market research, meaning that the students could understand how it works in practice and we could further apply it for the Business Project.

3.2 *New knowledge*

This project certainly enriched my academic knowledge, especially concerning portfolio management and trade marketing decision-making. As the ice cream market is such a complete example of a very dynamic and competitive industry, the concepts that were acquired throughout the project are probably going to be very useful in several business contexts.

One of the main theoretical frameworks used in this Business Project was a customer segmentation model. Nova students usually learn a lot about segmentation, however the importance of B2B segmentation might be disregarded in the Master's Marketing courses. For this specific project it was necessary to understand how to define a customer segmentation model, based on specific criteria that needs to be accurately established for each different segment. Then, the right strategy for each customer segment had to be defined so that the supplier may take the most out of the segmentation model. As an example, Olá needs to adapt its visibility investment according to each customer type. Hence, based on this

segmentation model that was created by the group, the brand can properly define the customers that will generate higher returns for such visibility investment (e.g. trade marketing).

3.3 *Personal experience*

As it was a very demanding project, it was possible to understand my own strengths and weaknesses, especially when working in a team. One of my key abilities is actually to plan ahead, define clear objectives for the short-run and divide the tasks within the group according to that plan. I am definitely a person who prefers to go straight to the point, tries to avoid wasting time in irrelevant topics and therefore I am capable to push the group members in the right direction.

Nonetheless, I have noticed that in some occasions I was not able to motivate the group when necessary, especially when difficult issues arouse in our way. The project's scope was actually very demanding and considering its length of 3 months and a half, it sometimes seemed almost impossible to achieve. I believe that I should have tried to incentive my colleagues and encourage them to work as much as possible in order to reach the best result. Therefore, this is probably a relevant weakness that I need to work on.

In addition, a very relevant issue in this team project was the deadlines pressure. Considering that the group was composed by five elements, it became even tougher to keep a relaxed and calm environment in some situations. Hence, I know that this is definitely a vital area for improvement in which I should focus on, especially considering my insertion in the professional context in the near future.

3.4 *Benefit on hindsight*

The team was definitely what added the most value for this project. In spite of having a multicultural team composed by five students with very diverse backgrounds, there was a clear personality match and we were very similar people in several aspects. Therefore it was possible to keep a very positive and relaxed working environment during the whole project, which stimulated a lot of brainstorming and further creation of innovative ideas. Consequently, the positive environment contributed a lot for the project's quality and creativity. However, when all the team members are too relaxed and comfortable, there is a risk of not reaching the required efficiency level. I cannot say that this was the case because all requirements were actually met, however the internal deadlines that were established by the group could have been stricter as way to avoid working under pressure.

4. APPENDIX



Fig. 1. Olá price boards, implemented in 2013.

Category Role Matrix

Gross Margin %

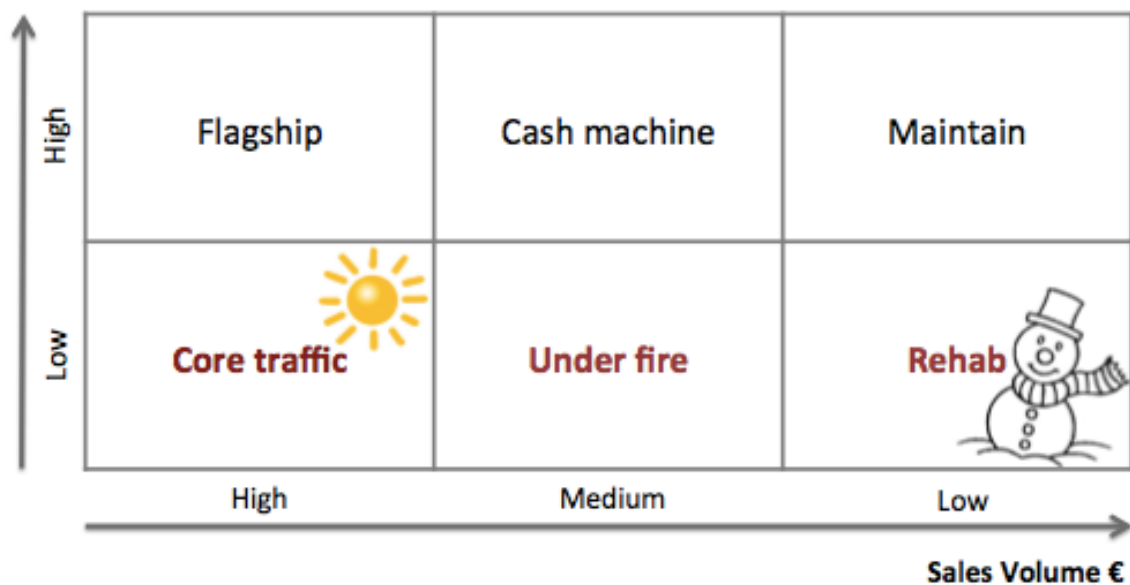


Fig. 2. Alternate Category Role Matrix, by Professor Robert Blattberg.

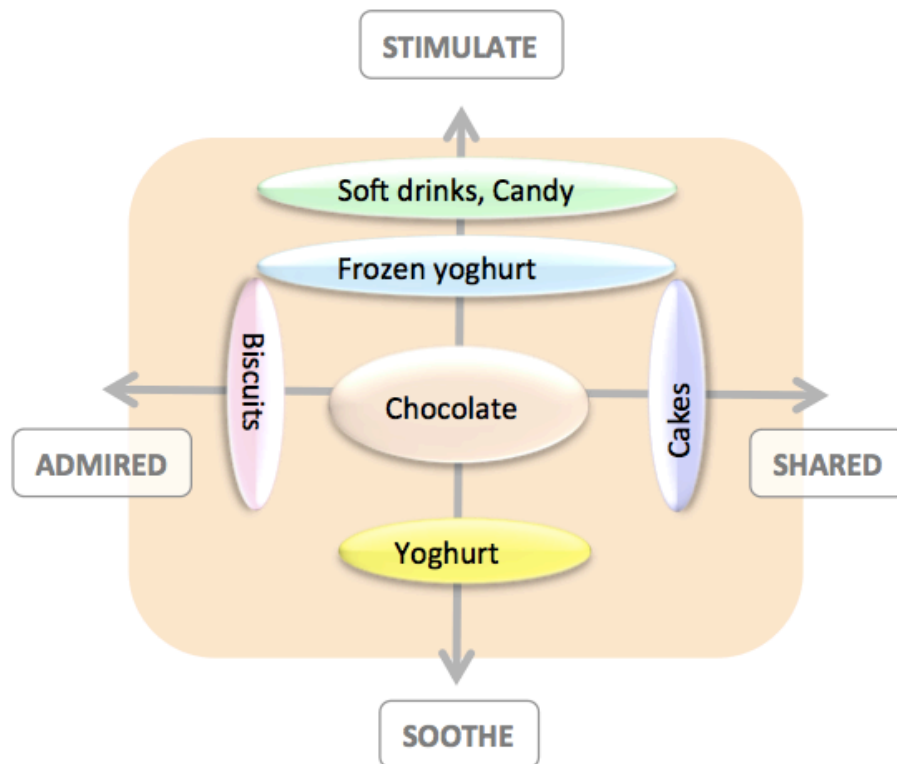


Fig. 3. Indirect competitors for Olá, represented in the emotive context: admired versus shared product and stimulate versus soothe product.



Fig. 4. Magnum Hot online communication for the in-home business, in Winter 2013.

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